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STATE FOR SCA/CEN, EEB

DOE FOR EKIMOFF

COMMERCE FOR HUEPER

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TAGS: [PGOV](#) [PRL](#) [EPET](#) [KZ](#)

SUBJECT: KAZAKHSTAN'S GAS EXPORTS: NOT YET ABUNDANT, BUT PRICIER

REF: A. ASTANA 480 B. ASTANA 206 C. ANKARA 358

Classified By: AMBASSADOR ORDWAY FOR REASONS 1.4(B) AND (D)

¶1. (C) Summary: Kazakhstan, along with Uzbekistan and Turkmenistan, plans to sell its gas exports at "European prices" in 2009. KazMunayGas President Uzakbay Karabalin announced Kazakhstan's intent at a meeting in Moscow between Gazprom and energy officials from Kazakhstan, Turkmenistan, and Uzbekistan. On March 12, Prime Minister Masimov confirmed to the Ambassador that Kazakhstan will raise its gas prices. Nevertheless, oil, not gas, remains the biggest money-maker in Kazakhstan and gas will continue to be re-injected at Tenghiz (and at Kashagan in the future), limiting the volumes available for export. End Summary.

Russia Encourages Kazakhstan to Raise Gas Prices

¶2. (C) On March 11 in Moscow, KazMunayGas President Uzakbay Karabalin joined energy officials from Uzbekistan and Turkmenistan in announcing the intent of all three countries to sell gas exports at "European prices." In a conversation with the Ambassador on March 12, Prime Minister Masimov confirmed Kazakhstan's plans. According to Masimov, Russia proposed the idea, under which Caspian gas will be sold at "European" market prices. The new pricing policy will apply to all countries downstream of Russia, including Ukraine, Belarus, and Georgia. Masimov said that Kazakhstan realizes that its decision will be extremely unpopular with those countries. Kazakhstan's announcement comes not long after Minister of Energy and Natural Resources Sauat Mynbayev told the Ambassador that a Trans-Caspian gas pipeline makes little economic sense for Kazakhstan because of the small netback in comparison with other options. (Reftel A).

At \$100 a Barrel, Kazakhstan Remains an Oil Country

¶4. (C) Kazakhstani officials are optimistic about future gas production. Musabek Isayev, KazMunaiGas Managing Director for Gas Projects, told Poloff that Kazakhstan projects that volumes of commodity gas will increase from 13 billion cubic meters in 2007 to 30 billion cubic meters by 2020.

¶5. (C) For the major international energy companies, however, oil remains the focus, for now. At Tenghiz, most gas is being reinjected into the reservoir to promote crude production - which is more profitable. TenghizChevroil's current gas production is only 4 bcm, and is expected to rise to only 7 bcm with the second generation expansion which will come on

line later this year. Gas is also expected to be reinjected at Kashagan when it begins production (Reftel B). (Note: In reftel C, EU Nabucco Coordinator Van Aartsen incorrectly stated that companies are reinjecting in Kazakhstan "for lack of other commercial opportunities" and that Chevron and ExxonMobil have not been approached by the USG to make gas available for Nabucco. In fact, USG officials have discussed the availability of Kazakhstani gas for the European market with the companies on a number of occasions. For the IOCs, however, reinjection -- which promotes crude production -- is a commercial decision motivated by the high price of oil and the uncertainty of Trans-Caspian gas transport options. The IOCs also have concerns with reservoir management, and they believe that proper stewardship of the reservoir requires reinjection).

¶6. (C) Comment: Kazakhstan's oil and gas strategies differ. With oil production booming, and set to increase, Kazakhstan needs diversified transportation routes and multiple partnerships. The GOK does not exhibit the same flexibility in the gas sector, where it is most interested in maximizing its netbacks in realization that it does not have enough gas to support multiple pipelines. Until gas production ramps up and more attractive deals are offered, Kazakhstan is increasingly comfortable in selling gas to Russia, particularly with Russia now pushing a more profitable pricing plan. End Comment.

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